

2

EDITORIAL

"Eurozone: the surprising resilience of the labour market, will it last?"

4

MARKETS OVERVIEW

Recent market developments (foreign exchange, stock markets, interest rates, commodities, etc.)

6

ECONOMIC PULSE

Analysis of the recent economic data: China, Italy, United Kingdom, vaccination & mobility

12

ECONOMIC SCENARIO

Main economic and financial forecasts.

13

CALENDARS

Last week's main economic data and key releases for the week ahead

15

FURTHER READING

Latest articles, charts, videos and podcasts of Economic Research

ECONOMIC RESEARCH



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EUROZONE: THE SURPRISING RESILIENCE OF THE LABOUR MARKET, WILL IT LAST?

Since the start of this year, the European Commission's industry sentiment survey has seen a significant decline, yet companies continue to report that labour remains a key factor limiting production. This is probably due to order books that remain at record high levels in terms of duration of assured production. Through their impact on the growth of employment and wages, labour market bottlenecks should provide some resilience to consumer spending when the economy is turning down. This support will probably not last however. Hiring intentions of companies have started to decline, which should ease the bottlenecks through a slowdown of employment growth.

At first glance, there seems to be a disconnect between developments in the Eurozone economy in general and what is happening in the labour market. Despite the significant decline since the start of this year of the European Commission's industry sentiment survey, companies in that sector continue to report that labour remains a key factor limiting production (*chart 1*). Services and construction are confronted with a similar issue. This apparent anomaly can be explained easily: labour market bottlenecks develop when order books are getting filled.

Following the Covid-19 lockdowns, the latter have skyrocketed. Companies have responded by hiring more staff -the unemployment rate has dropped and the participation rate has increased-, but lately this has become more and more difficult. This is well illustrated by order book levels -measured by the number of months of assured production- and labour market bottlenecks which are at record highs in industry (*chart 2*).

This situation has fueled inflation and continues to do so, by boosting the pricing power of companies and via higher wage increases. On the other hand, through the impact on disposable household income, the labour market tensions should also provide some resilience to consumer spending when the economy is turning down.

Will this support last? Probably not. Historically, if we focus on the industry sector, employment expectations -which represent companies' hiring plans for the next three months- have started to weaken when the order book assessment was deteriorating (*chart 3*)¹. This is also what we observe since the spring of this year, although there are notable sector differences within industry (*chart 4*).

Between January and October of this year, the consumer durables and intermediate goods sectors have seen the largest decline of the order book assessment and employment expectations. The investment goods sector has seen a more limited decline, in particular in terms of order books. Finally, consumer non-durables and food and beverages have seen the smallest decline of employment expectations. The latter has even witnessed a small improvement of order book levels.

Employment expectations are a leading indicator of labour market bottlenecks so, given the declining trend in recent months of the former, labour should become less of a constraint on production (*chart 5*). Eventually this should slow down employment growth or even cause a decline in employment levels (*chart 6*), which in turn should weigh on household confidence and spending.

William De Vijlder

1. The survey question is: "Do you consider your current overall order books to be...? + more than sufficient (above normal) = sufficient (normal for the season) - not sufficient (below normal) (source: The Joint Harmonised EU Programme of Business and Consumer Surveys, User Guide (updated May 2022), European Commission).

EUROZONE: LABOUR SHORTAGES AND SENTIMENT IN INDUSTRY

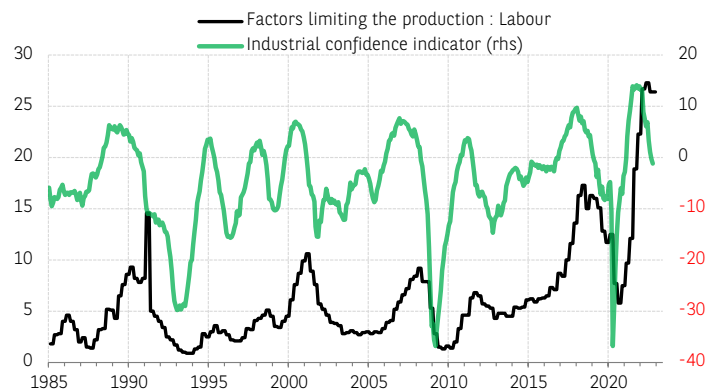


CHART 1

SOURCE:EUROPEAN COMMISSION BUSINESS SURVEY, BNP PARIBAS

INDUSTRY: LABOUR MARKET BOTTLENECKS AND DURATION OF PRODUCTION ASSURED BY ORDER BOOKS

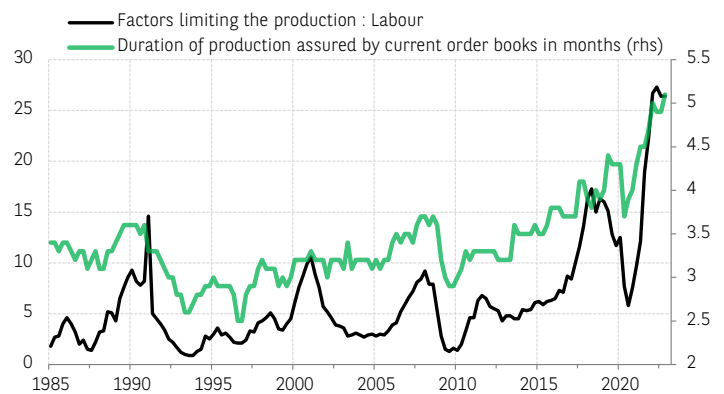


CHART 2

SOURCE:EUROPEAN COMMISSION BUSINESS SURVEY, BNP PARIBAS



INDUSTRY: ORDER BOOK LEVELS AND EMPLOYMENT EXPECTATIONS

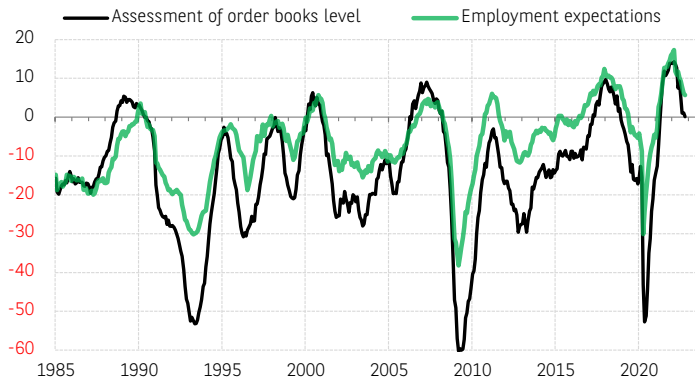


CHART 3 SOURCE:EUROPEAN COMMISSION BUSINESS SURVEY, BNP PARIBAS

ORDER BOOK LEVELS AND EMPLOYMENT EXPECTATIONS IN DIFFERENT INDUSTRY SUB-SECTORS: JANUARY VERSUS OCTOBER 2022

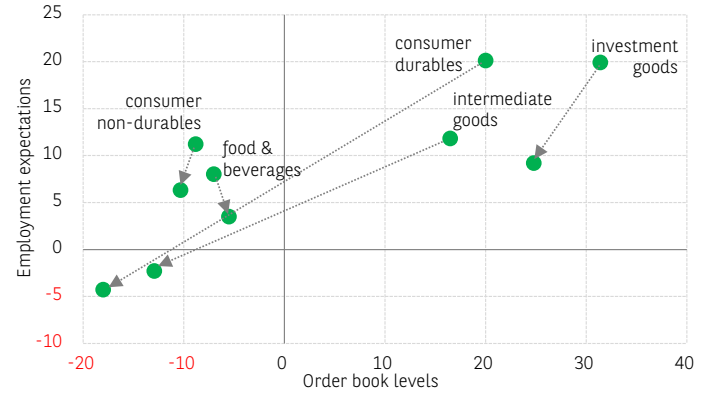


CHART 4 SOURCE:EUROPEAN COMMISSION BUSINESS SURVEY, BNP PARIBAS

INDUSTRY: LABOUR MARKET BOTTLENECKS AND EMPLOYMENT EXPECTATIONS

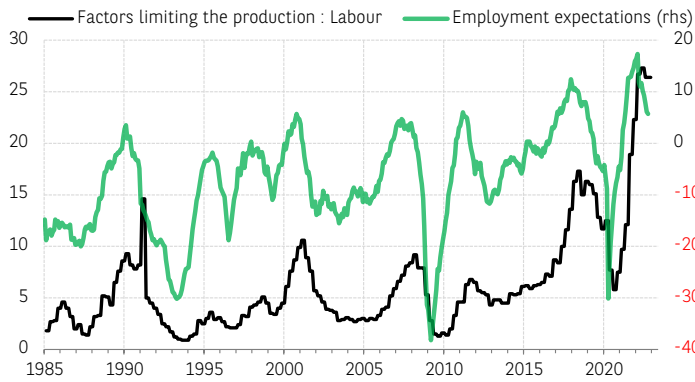


CHART 5 SOURCE:EUROPEAN COMMISSION BUSINESS SURVEY, BNP PARIBAS

INDUSTRY: LABOUR MARKET BOTTLENECKS AND EMPLOYMENT GROWTH



CHART 6 SOURCE:EUROPEAN COMMISSION BUSINESS SURVEY, BNP PARIBAS



Employment expectations are a leading indicator of labour market bottlenecks. Given the declining trend of the former, labour should become less of a constraint on production and employment growth should decline or even turn negative.



MARKETS OVERVIEW

OVERVIEW

Week 11-11-22 to 18-11-22

➔ CAC 40	6 595	➔ 6 644	+0.8 %
➔ S&P 500	3 993	➔ 3 965	-0.7 %
➔ Volatility (VIX)	22.5	➔ 23.1	+0.6 pb
➔ Euribor 3M (%)	1.76	➔ 1.82	+5.9 bp
➔ Libor \$ 3M (%)	4.61	➔ 4.66	+5.9 bp
➔ OAT 10y (%)	2.66	➔ 2.48	-18.2 bp
➔ Bund 10y (%)	2.16	➔ 2.02	-14.0 bp
➔ US Tr. 10y (%)	3.86	➔ 3.83	-2.9 bp
➔ Euro vs dollar	1.03	➔ 1.04	+0.3 %
➔ Gold (ounce, \$)	1 763	➔ 1 754	-0.5 %
➔ Oil (Brent, \$)	96.2	➔ 87.7	-8.9 %

MONEY & BOND MARKETS

Interest Rates	highest 22	lowest 22	Yield (%)	highest 22	lowest 22
€ ECB	2.00	at 02/11	0.00	at 03/01	
Eonia	-0.51	-0.51	at 03/01	-0.51	at 03/01
Euribor 3M	1.82	1.82	at 18/11	-0.58	at 05/01
Euribor 12M	2.84	2.87	at 09/11	-0.50	at 05/01
\$ FED	4.00	4.00	at 03/11	0.25	at 03/01
Libor 3M	4.66	4.68	at 17/11	0.21	at 03/01
Libor 12M	5.51	5.67	at 04/11	0.58	at 03/01
£ BoE	3.00	3.00	at 03/11	0.25	at 03/01
Libor 3M	3.57	3.75	at 26/09	0.26	at 03/01
Libor 12M	0.81	0.81	at 03/01	0.81	at 03/01
At 18-11-22					
€ AVG 5-7y	2.64	2.79	at 28/09	-0.04	at 03/01
Bund 2y	2.07	2.16	at 08/11	-0.83	at 04/03
Bund 10y	2.02	2.44	at 21/10	-0.14	at 24/01
OAT 10y	2.48	3.00	at 21/10	0.15	at 04/01
Corp. BBB	4.43	5.14	at 21/10	0.90	at 05/01
\$ Treas. 2y	4.55	4.78	at 07/11	0.70	at 04/01
Treas. 10y	3.83	4.23	at 24/10	1.63	at 03/01
High Yield	9.11	9.97	at 13/10	5.07	at 03/01
£ gilt. 2y	3.29	4.59	at 27/09	0.69	at 03/01
gilt. 10y	3.24	4.50	at 27/09	0.97	at 03/01
At 18-11-22					

EXCHANGE RATES

1€ =	highest 22	lowest 22	2022
USD	1.04	1.15	at 10/02 0.96 at 27/09 -8.9%
GBP	0.87	0.90	at 28/09 0.83 at 14/04 +3.5%
CHF	0.99	1.06	at 10/02 0.95 at 28/09 -4.9%
JPY	144.94	147.34	at 26/10 125.37 at 04/03 +10.7%
AUD	1.55	1.62	at 04/02 1.43 at 25/08 -1.0%
CNY	7.39	7.39	at 18/11 6.75 at 14/07 +1.9%
BRL	5.53	6.44	at 06/01 4.98 at 03/11 -12.7%
RUB	63.00	164.76	at 07/03 55.60 at 26/09 -26.1%
INR	84.65	85.96	at 11/02 78.49 at 27/09 +0.1%
At 18-11-22			
Change			

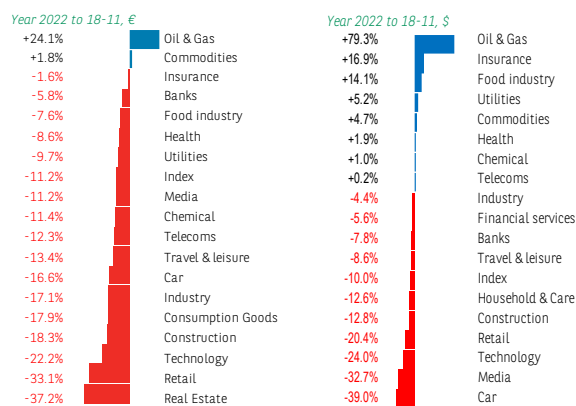
COMMODITIES

Spot price, \$	highest 22	lowest 22	2022	2022(€)
Oil, Brent	87.7	128.2	at 08/03 79.0 at 03/01	+11.8% +22.7%
Gold (ounce)	1 754	2 056	at 08/03 1 628 at 03/11	-3.7% +5.6%
Metals, LME	3 838	5 506	at 07/03 3 453 at 27/09	-14.7% -6.4%
Copper (ton)	8 043	10 702	at 04/03 7 160 at 14/07	-17.4% -9.4%
wheat (ton)	269	4.7	at 17/05 263 at 10/11	+13.0% +24.0%
Corn (ton)	255	3.2	at 28/06 226 at 03/01	+1.2% +22.6%
At 18-11-22				
Change				

EQUITY INDICES

Index	highest 22	lowest 22	2022
World			
MSCI World	2 659	3 248	at 04/01 2 368 at 12/10 -17.7%
North America			
S&P500	3 965	4 797	at 03/01 3 577 at 12/10 -16.8%
Europe			
EuroStoxx50	3 925	4 392	at 05/01 3 279 at 29/09 -8.7%
CAC 40	6 644	7 376	at 05/01 5 677 at 29/09 -0.7%
DAX 30	14 432	16 272	at 05/01 11 976 at 29/09 -9.1%
IBEX 35	8 128	8 934	at 27/05 7 261 at 12/10 -0.7%
FTSE100	7 386	7 672	at 10/02 6 826 at 12/10 +0.0%
Asia			
MSCI, loc.	1 096	1 165	at 05/01 1 012 at 30/09 -0.4%
Nikkei	27 900	29 332	at 05/01 24 718 at 09/03 -3.1%
Emerging			
MSCI Emerging (\$)	943	1 267	at 12/01 843 at 24/10 -2.3%
China	58	86	at 20/01 47 at 31/10 -28.8%
India	791	891	at 13/01 699 at 17/06 +2.9%
Brazil	1 466	2 003	at 04/04 1 311 at 14/07 -2.1%
At 18-11-22			
Change			

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

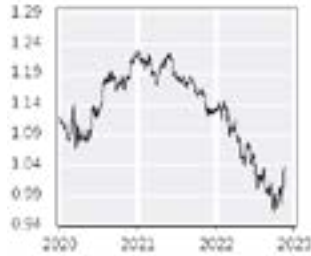


SOURCE: REFINITIV, BNP PARIBAS,

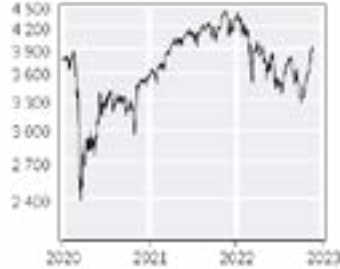


MARKETS OVERVIEW

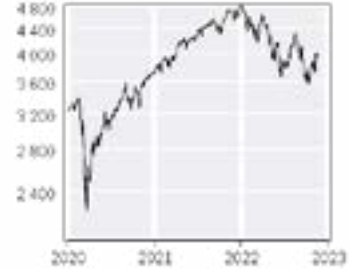
EURO-DOLLAR



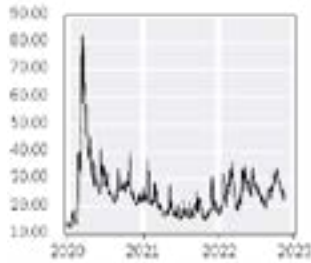
EUROSTOXX50



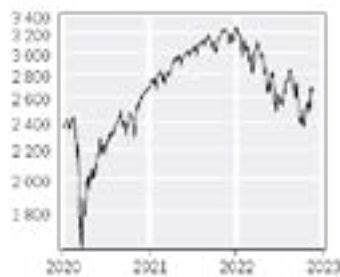
S&P500



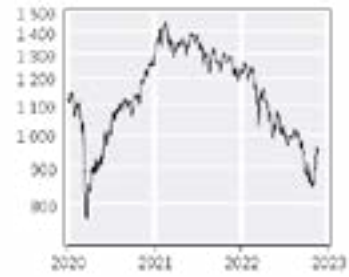
VOLATILITY (VIX, S&P500)



MSCI WORLD (USD)



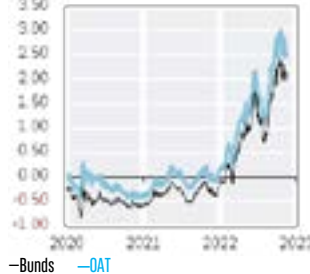
MSCI EMERGING (USD)



10Y BOND YIELD, TREASURIES VS BUND



10Y BOND YIELD

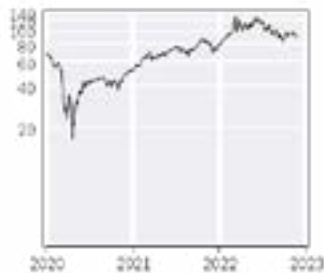


10Y BOND YIELD & SPREADS

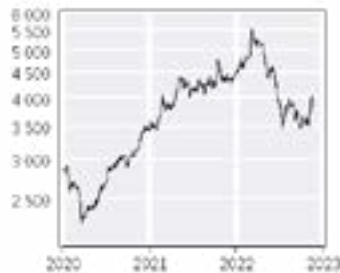
Year 2022 to 18-11

4.83%	Greece	280 bp
3.77%	Italy	175 bp
3.03%	Spain	101 bp
2.82%	Portugal	79 bp
2.62%	Austria	60 bp
2.61%	Finland	58 bp
2.56%	Belgium	53 bp
2.48%	France	45 bp
2.47%	Ireland	45 bp
2.29%	Netherlands	26 bp
2.02%	Germany	

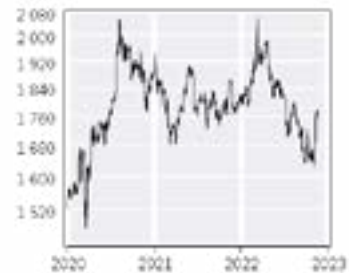
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS



ECONOMIC PULSE

CHINA: FURTHER DOWNTURN IN ECONOMIC ACTIVITY

The latest activity data point to a widespread slowdown in the Chinese economy in October 2022. Industrial growth slowed to 5% year-on-year (y/y) from 6.3% in September, bringing an end to the acceleration seen during Q3 2022. The effects of tax incentives for purchasing cars have worn off, leading to a slowdown in car production. Most notably, the manufacturing sector adjusted its production (the electronics sector, in particular) in response to the rapid slowdown in exports (which declined by 0.6% y/y in October vs. +10.1% in Q3 and +13.8% during H1).

In the services sector, difficulties have persisted: activity stagnated in October (+0.1% y/y), after barely recovering during Q3 (+1.2%) from its downturn during Q2 (-3.3%). The new mobility restrictions imposed during the second half of October once again slowed down retail sales (-0.5% y/y in value terms vs. +3.5% during Q3). The still strict Zero Covid policy (despite the changes just announced), the persisting crisis in the real estate sector and the deteriorating labour market conditions (unemployment increased again in the country's 31 main cities, hitting 6% in October) continue to weigh heavily on consumer confidence and consumer spending.

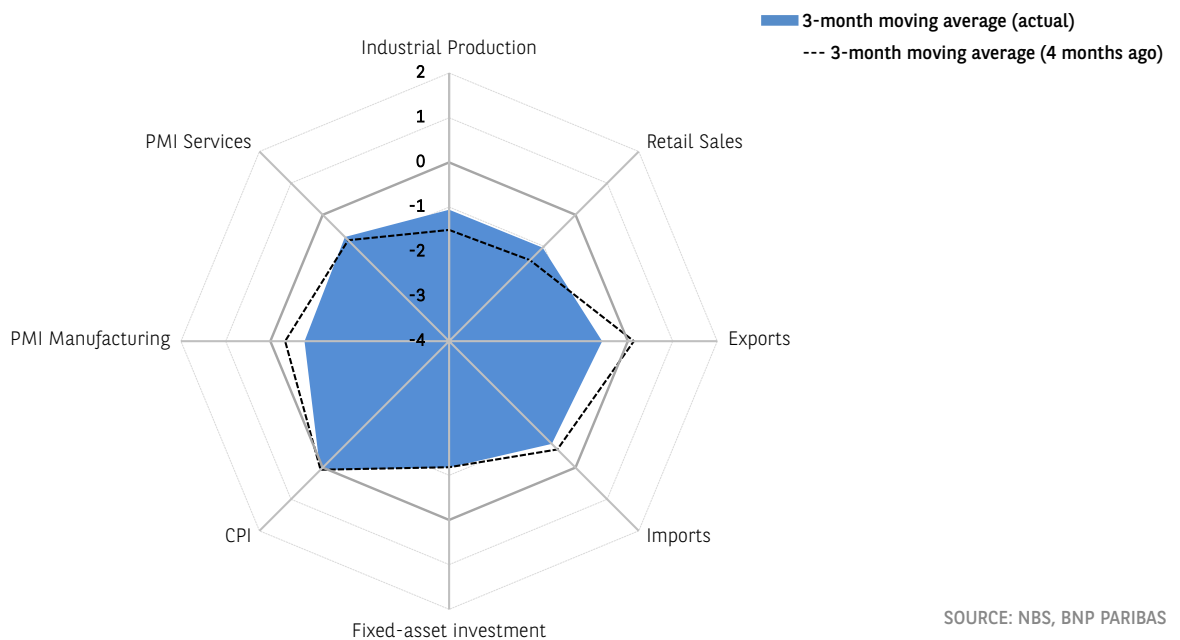
The slowdown in consumer price inflation (2.1% y/y in October, compared with 2.7% during Q3) and the low core inflation (0.6% in October, compared with 0.7% during Q3) are also signs of China's sluggish domestic demand.

Activity in the property sector continued to fall rapidly in October (sales volumes: -23.2% y/y, projects under construction: -32.6%, and new starts: -35.1%), and house prices dipped slightly further (-3.7% y/y). Real estate investment decreased further in October, falling by 7.3% y/y in value terms during the first ten months of 2022.

The authorities are increasing monetary and fiscal support measures. The most visible effect of policy support is the still solid increase in public investment in infrastructure projects. By contrast, monetary easing is failing to boost growth in total credit to the economy. In the property sector, measures aimed at stimulating demand for housing have had little impact so far, while bank loans to developers are showing signs of acceleration (+4.2% y/y during Q3, vs. +1.5% during Q2). However, many property developers are still financially strangled, and the number of defaults on bank loans and bond markets could increase further in the short term.

Christine Peltier

CHINA: QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +2. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



ECONOMIC PULSE

ITALY: INFLATION ACCELERATES FURTHER

Italy is facing an unprecedented and widespread surge in inflation and is unlikely to escape falling into recession this winter. Even though real GDP surprised on the upside in Q3 (+0.5% q/q according to initial estimates by the Italian National Institute of Statistics (Istat)), the barometer clearly indicates that the economic outlook is getting gloomier. Consumer confidence indices are leaving no doubts about the current direction of travel: the financial situation index (next 12 months) plunged to record lows in October, falling below the previous record set in June 2012, during the sovereign debt crisis in Europe. Turning to the business sector, industrial production is plateauing due to the energy crisis and the ongoing supply shortages in many sectors. The PMI for new manufacturing orders also fell to its lowest point since April 2009, if we exclude the trough recorded during the first lockdown.

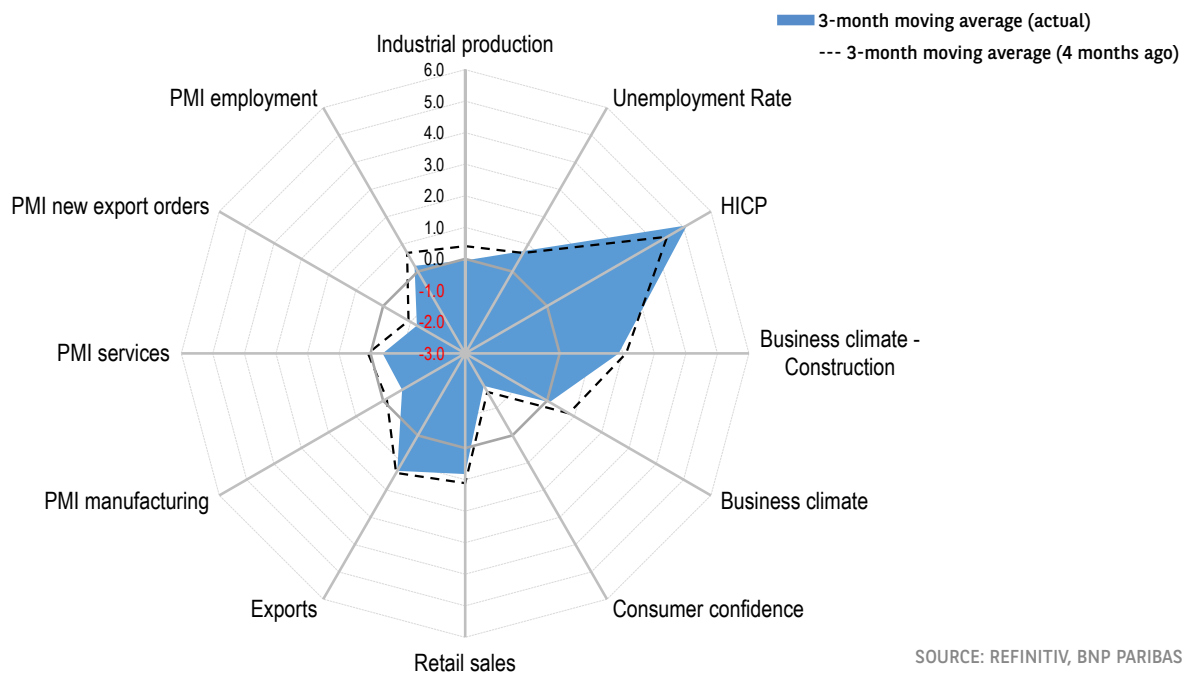
Harmonised inflation (HICP) jumped from 9.4% in September to 12.6% in October, which was 2 percentage points above the eurozone average. Energy prices mainly contributed to the rise in inflation in October, having soared 72.4% versus 41.2% in September. However, if the energy component of HICP is excluded, Italy's consumer prices grew at a slower rate than the eurozone, at 6.4% y/y compared to 6.9% y/y.

In response to the energy crisis, the new administration led by Giorgia Meloni is set to unveil the budget for 2023, which is expected to include over EUR 30 billion in additional public spending in order to fund support for households and businesses. Italian Finance Minister Giancarlo Giorgetti has already announced a major 7.3% pensions increase in 2023.

However, the government is walking a tightrope. It must strike a balance between strengthened measures to support the economy (which are needed and were promised during the election campaign) and market risks resulting from public finances deteriorating excessively. Sovereign interest rates on long-term Italian bonds, as well as yield spreads with the German Bund, have fallen since the end of October, but Italian government debt issuance will once again be high in 2023. The weight of debt servicing should therefore rise over the next year.

Guillaume Derrien

ITALY: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -3 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



ECONOMIC PULSE

8

UNITED KINGDOM: ENTERING RECESSION

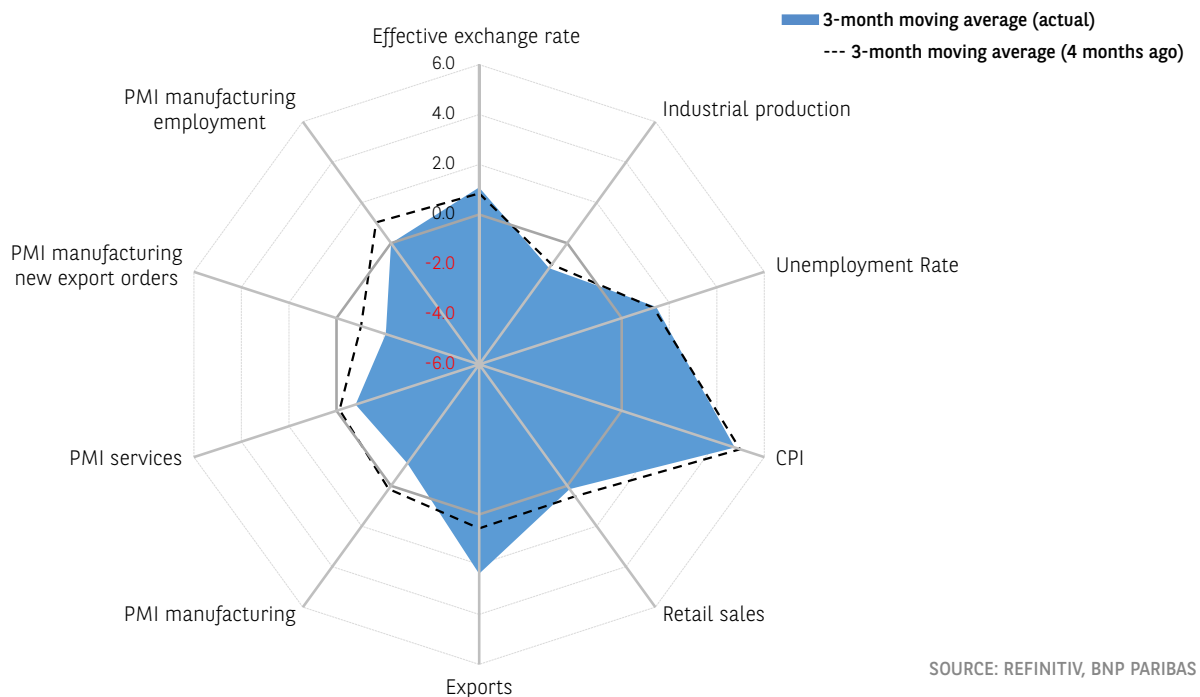
According to the preliminary estimate by the Office for National Statistics (ONS), quarterly growth in UK GDP fell by 0.2% (q/q) in Q3 (compared with +0.7% in Q1 and +0.2% in Q2). This contraction is mainly due to higher-than-expected destocking, particularly in the manufacturing and retail sectors. The fall in household consumption (-0.5% q/q), due to the rise in the cost of living, was fully offset by the strong upturn in public spending (+1.3%). For its part, gross fixed capital formation recovered sharply (+2.5% q/q, compared with -1.4% in Q2), buoyed by public investment (+7.6%) while private investment fell (-0.5%), against a backdrop in which uncertainty and the tightening of financial conditions delayed investments. Likewise, external trade contributed strongly to GDP growth (3.3 percentage points), thanks to a drop in imports (-3.2% q/q) while exports - mainly non-monetary gold - grew strongly (+8%).

Other bad news for the UK economy is that inflation is continuing to spread. The consumer price index (CPI) rose by one percentage point to +11.1% (y/y) in October (+2% m/m). The sharp rise in the cost of living was caused by the increase in gas and electricity prices, despite measures taken by the government, and food prices (+16.5% y/y), which are at their highest in 45 years. Core inflation remained stable year-on-year (+6.5%), but continued to rise month-on-month (+0.7%), which should justify a further rise in key rates at the December Monetary Policy Committee (MPC) meeting.

In his Autumn Statement, Jeremy Hunt, Chancellor of the Exchequer, announced that the UK is entering a recession, according to projections from the Office for Budget Responsibility (OBR). The Chancellor of the Exchequer also unveiled a plan for "stability, growth and public services" which is intended to support household purchasing power with targeted support of GBP 26 billion. On the other hand, companies are unlikely to benefit from new support measures or from the extension of existing measures. The plan also includes a significant budget consolidation of GBP 55 billion by 2027-2028, split between tax hikes (GBP 25 billion) and public spending savings (GBP 30 billion), to ensure the sustainability of public finances.

Félix Berte

UNITED KINGDOM: QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



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world

ECONOMIC PULSE

COVID-19: THE WEEKLY NUMBER OF NEW CASES FALLS BELOW THE ONE MILLION MARK IN EUROPE

After falling for a month, Covid-19 pandemic figures are again rising slightly in most regions of the world, but remain at a low level. 2.5 million new cases were recorded between 10 and 16 November, up 6% on the previous week (chart 1). At the regional level, the number of cases continues to rise sharply in South America (+58%) - in particular in Brazil (+69%) -, in Africa (+37%) and in Asia (+11%). In Europe (-2%), the trend remains downward and the weekly number of cases has fallen below the one million mark, its lowest level since July 2021. Conversely, in North America there was a fall (-6%) for the first time following 4 weeks of almost continuous increases. At the same time, vaccination coverage has stagnated in most countries around the world. To date, 13 billion doses of vaccine have been administered globally, which brings the proportion of the world's population having received at least one dose of a Covid-19 vaccine to 68.2% (chart 2).

The weekly proxy indicator for GDP is relatively stable or even on a slightly downward trend in the United States, France, Germany, Spain, Belgium and Japan. The decline seems to be somewhat more marked in Italy and the United Kingdom (chart 3, black curve). This tracker is produced by the OECD using Google Trends data from searches relating to consumption, the labour market, real estate, industrial activity and uncertainty. The tracker shown here is calculated on a rolling basis over one year.

Tarik Rharrab

* Google Mobility Reports show how visits and length of stay at different places change compared to a baseline. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3-Feb 6, 2020. A figure of negative 30% indicates that traffic was down 30% compared to a baseline. The reports show trends over several weeks with the most recent data representing approximately 2-3 days ago—this is how long it takes to produce the reports. In order to smooth the series, we use a seven-day moving average of the raw data in the Google Mobility Reports. Source: Google.

DAILY CONFIRMED COVID-19 CASES (7-DAY MOVING AVERAGE)

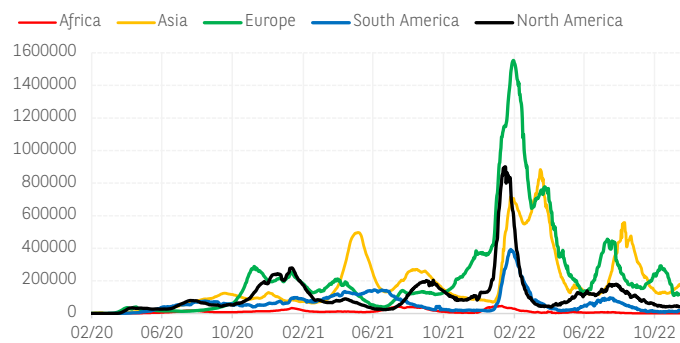


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (11/17/2022), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

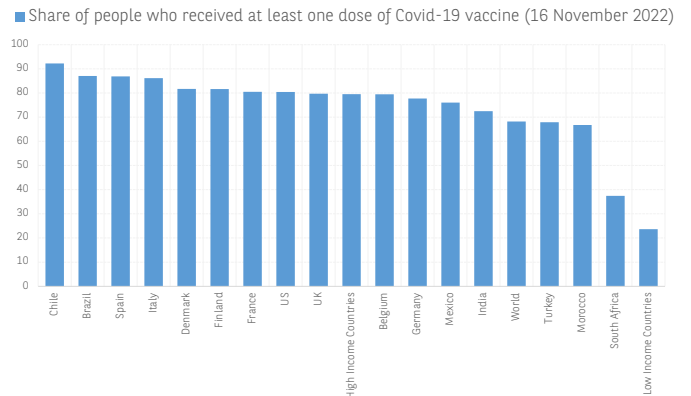
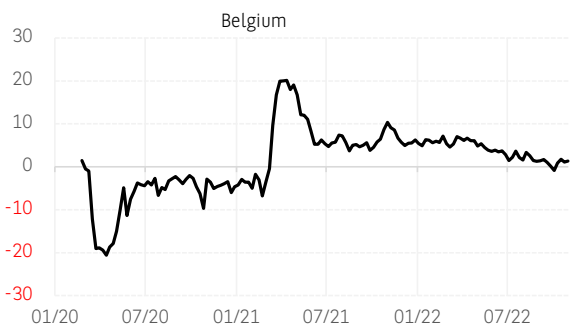
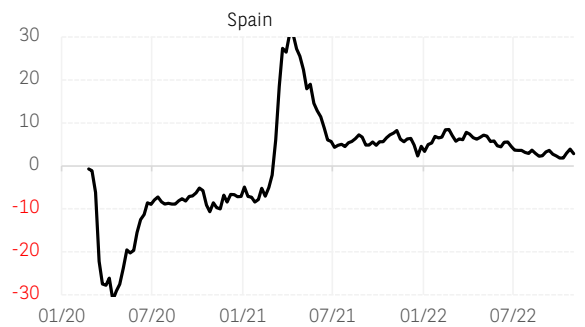
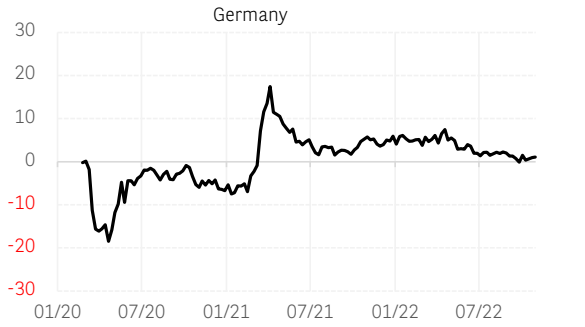
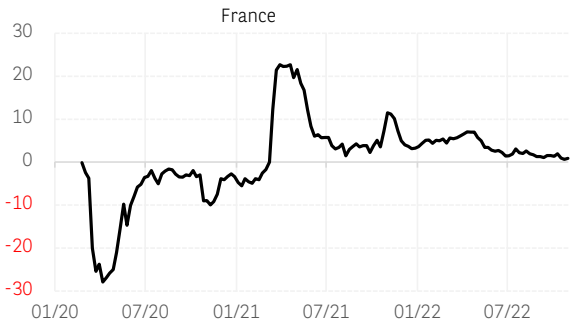
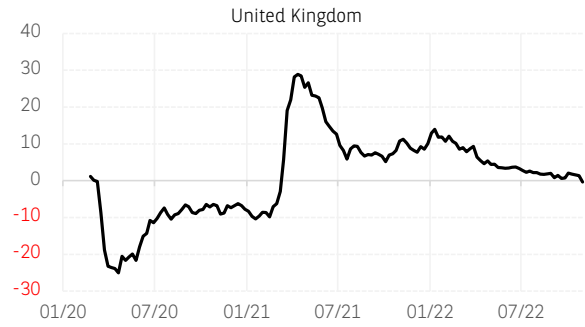
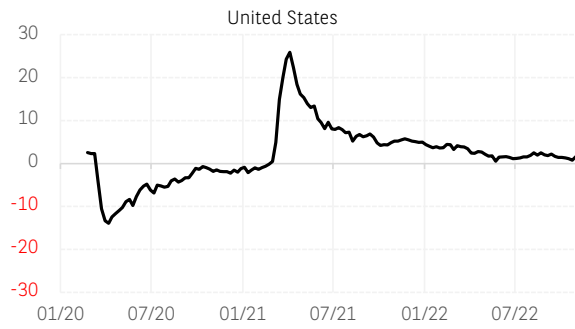


CHART 2

SOURCE: OUR WORLD IN DATA (11/17/2022), BNP PARIBAS



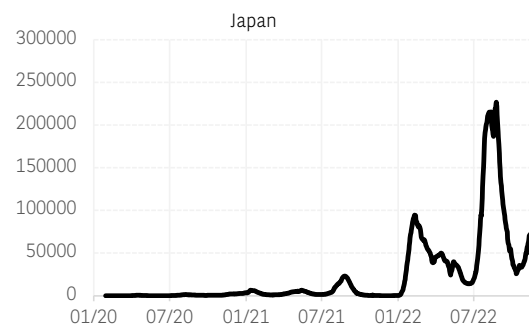
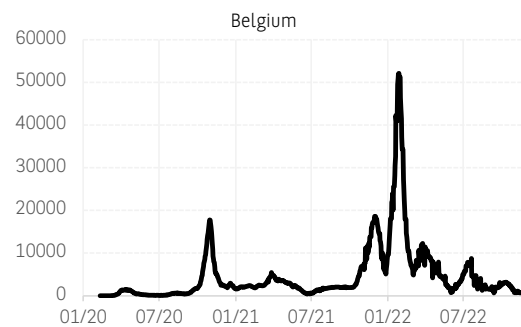
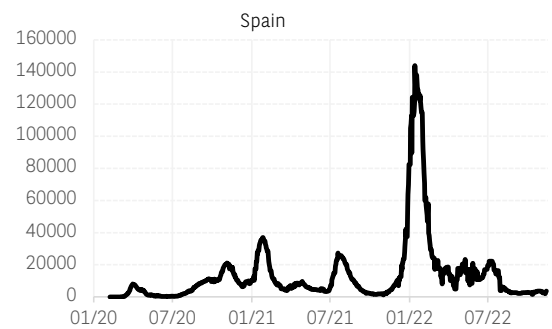
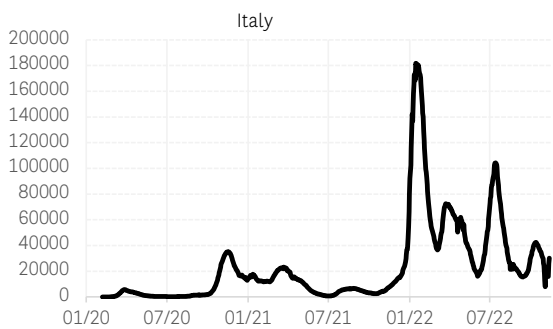
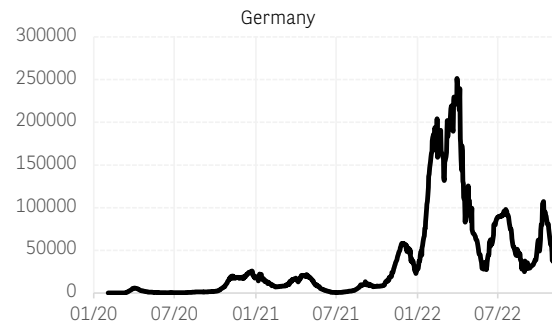
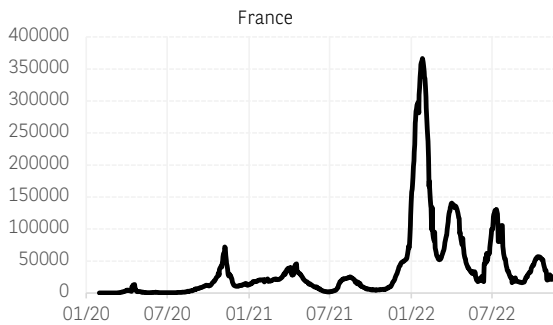
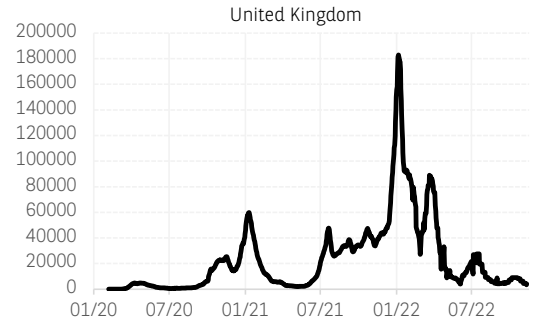
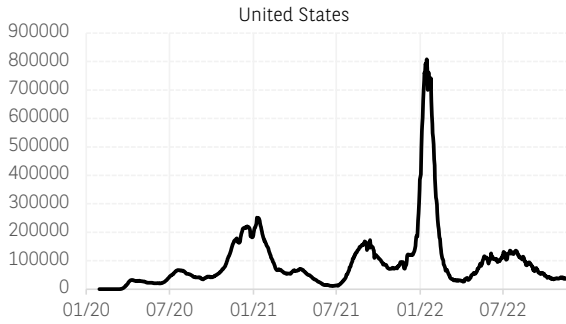
OECD WEEKLY TRACKER Y/Y GDP GROWTH



SOURCE: OECD (11/04/2022), BNP PARIBAS



DAILY NEW CONFIRMED CASES OF COVID-19 (7-DAY MOVING AVERAGE)



SOURCE: JOHNS-HOPKINS UNIVERSITY (11/04/2022)



ECONOMIC SCENARIO

12

UNITED STATES

The US economy rebounded strongly during Q3, following two quarters of negative growth, thanks to healthy performances in corporate investment, household spending and, in particular, exports. The labour market is showing very early signs of a slowdown, but job creation remains high, the unemployment rate is still low and wages are still buoyant. Inflation seems to have peaked in the middle of the year and should continue to fall while remaining significantly above the target of 2% by late 2023. Following the mid-term elections, the Democrats retained a narrow majority in the Senate and the Republicans won a very tiny majority in the House of Representatives. This should limit what President Joe Biden can do over the remainder of his term, but, at the same time, compromises could also be reached.

CHINA

The recovery of the Chinese economy since its Q2 2022 contraction has been sluggish and unbalanced. Industrial production has been the main growth driver, but it is expected to lose steam in the short term, largely due to the weakening in external demand and slower export growth. Meanwhile, activity driven by the domestic market and the services sector still struggle to strengthen. The authorities are enhancing fiscal and monetary easing measures. However, the drags on domestic demand remain powerful: the correction in the property sector continues, and the deterioration in the labour market, the still tight Covid policy in spite of small adjustments, and weak household confidence weigh on private consumption. Consumer price inflation is very moderate.

EUROZONE

Growth in the euro zone in the third quarter was weak, but at least it remained positive, while the survey data (business and consumer confidence) seemed to be clearly pointing to a decline. Although a contraction was avoided in the third quarter, the euro zone is unlikely to avoid recession. The combination of the inflationary shock, the energy crisis and the enforced monetary tightening and their increasingly negative effects are likely to overcome the resistance seen to date. However, the recession should remain shallow (a cumulative fall in GDP of 1.1% between Q4 2022 and Q2 2023) thanks to the fiscal policy cushion and the current tightness of the labour market. In annual average terms, real GDP growth in the euro zone is expected to reach 3.2% in 2022 but then turn negative in 2023 (-0.5%). The subsequent recovery is likely to be weak. Although it should start to decline towards the end of this year or the beginning of next year, inflation is likely to remain elevated, well above the 2% target at the end of next year and only falling back to it at the end of 2024, which will keep monetary policy in restrictive territory.

FRANCE

Real GDP growth has continued during the 3rd quarter (0.2% q/q, after +0.5% during the 2nd quarter), driven by a growth of manufacturing production partly explained by a recovery of sectors exposed to supply-side problems (particularly the car sector) and partly related to growing inventories in order to avoid potential stronger constraints on production during the winter. This element should weigh on Q4 GDP growth, which should also suffer from the ongoing inflation acceleration (6.2% y/y in October) towards a new peak above 7% in February (before a gradual disinflation). These shocks should weigh on GDP growth in 2023 (0% according to our forecasts, after 2.5% in 2022).

RATES AND EXCHANGE RATES

In the US, the Federal Reserve will continue its tightening policy, bringing the federal funds rate to its terminal rate for this cycle at 5.25% (upper end of the target range) in the first quarter of next year. Given the expected slow decline in inflation and despite the economy entering recession, this level should be maintained through 2023 and only be followed by rate cuts in 2024. US Treasuries are largely pricing in the upcoming rate hikes. In the near term there is still some upward potential, but subsequently yields should move lower as the inflation outlook improves and the market starts anticipating policy easing in 2024.

The ECB Governing Council will continue to raise its policy rates at its next meetings. We expect the terminal rate -i.e. the peak rate in this cycle- to be reached by the end of the first quarter of next year. We expect a peak for the deposit rate at 3.00%. We expect quantitative tightening to start in the second quarter of 2023. Early on in 2023, we expect higher government bond yields on the back of important supply but thereafter yields should move lower, driven by a gradual decline in inflation. Lower US yields should also play a role in the decline of eurozone yields.

The Bank of Japan is expected to maintain its current policy stance and we do not envisage a rate hike.

We expect the dollar to weaken somewhat versus the euro. The dollar's valuation is expensive, positioning in the market is very long and the long-term interest rate differential should narrow.

The yen has already weakened significantly versus the dollar, reflecting the increased policy divergence between the Fed and the Bank of Japan. We expect the exchange rate to remain around current levels in the near term. In 2023, the yen should strengthen versus the dollar considering that the federal funds rate should have reached its terminal rate.

GDP GROWTH & INFLATION

%	GDP Growth				Inflation			
	2021	2022 e	2023 e	2024 e	2021	2022 e	2023 e	2024 e
United-States	5.7	1.9	-0.1	-0.2	4.7	8.1	4.4	2.4
Japan	1.7	1.5	0.9	0.3	-0.2	2.4	1.9	1.3
United-Kingdom	7.4	4.4	-0.9	0.8	2.6	9.0	7.4	2.1
Euro Area	5.3	3.2	-0.5	1.3	2.6	8.5	5.7	2.3
Germany	2.6	1.8	-1.0	1.1	3.2	8.8	5.4	2.0
France	6.8	2.5	0.0	1.0	2.1	6.0	6.2	2.7
Italy	6.6	3.8	-0.4	1.1	1.9	8.5	6.5	2.1
Spain	5.1	4.6	0.0	1.3	3.0	8.5	2.8	1.5
China	8.1	3.2	4.5	4.8	0.9	2.1	2.7	2.5
India*	9.3	8.3	6.2	6.5	5.4	7.9	5.9	5.5
Brazil	4.6	3.0	0.5	1.3	8.3	9.4	5.4	4.9
Russia	4.5	-7.0	0.8	0.3	7.1	14.0	10.5	7.6

SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH (E: ESTIMATES & FORECASTS)
*FISCAL YEAR FROM 1ST APRIL OF YEAR N TO MARCH 31ST OF YEAR N+1

INTEREST & EXCHANGE RATES

Interest rates, %		Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q4 2024	
End of period							
US	Fed Funds (upper limit)	5.25	5.25	5.25	5.25	3.25	
	T-Note 10y	4.30	4.00	3.75	3.50	3.25	
	Eurozone	Deposit rate	3.00	3.00	3.00	3.00	2.00
		Bund 10y	2.75	2.65	2.50	2.30	2.00
UK	OAT 10y	3.45	3.30	3.10	2.90	2.50	
	BTP 10y	5.25	5.05	4.80	4.60	3.80	
	BONO 10y	4.05	3.90	3.75	3.55	2.90	
	Base rate	4.25	4.25	4.25	4.25	3.50	
Japan	Gilts 10y	4.00	3.75	3.60	3.35	3.15	
	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.10	
Japan	JGB 10y	0.25	0.25	0.25	0.25	0.25	

Exchange Rates		Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q4 2024
End of period						
USD	EUR / USD	1.01	1.00	1.03	1.06	1.10
	USD / JPY	140	138	133	128	120
	GBP / USD	1.09	1.08	1.11	1.14	1.18
EUR	EUR / GBP	0.93	0.93	0.95	0.95	0.95
	EUR / JPY	141	138	137	136	132

Brent		Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q4 2024
End of period						
Brent	USD/bbl	95	93	95	92	95

SOURCES: BNP PARIBAS (E: ESTIMATES & FORECASTS) (MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEGY, COMMODITIES DESK STRATEGY)



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CALENDAR

13

LATEST INDICATORS

In China, retail sales declined on a year-on-year basis in October, which was a disappointment considering that the consensus had expected a small increase. Industrial production growth slowed, the jobless rate was stable and house prices continue to decline. The ZEW survey expectations improved in the Eurozone. Third quarter employment increased 0.2%, which implies a slower pace. Car registrations improved in October and the final CPI for October came in at 10.6% (5.0% for core). In France, the unemployment rate edged down in the third quarter (from 7.4% to 7.3%). In Germany, the ZEW survey showed an improvement, both in terms of the assessment of the current situation and the expectations. In Japan, third quarter GDP disappointed by contracting 0.3% whereas the consensus had expected an increase of the same magnitude. Core machinery orders also disappointed. In the UK, inflation continues to rise -the increase was larger than anticipated- and the decline of employment was larger than expected though smaller than the previous number. In the US, after the welcome surprise of the latest consumer price data, there was another positive surprise coming from the producer prices, with core prices being stable in October. Mortgage applications were up and retail sales increased more than anticipated. Housing starts declined less than before but more than expected. Building permits declined as well, but less than feared. The Conference Board's index of leading indicator continued its downward trend in October and the decline during that month (-0.8%) was significantly larger than expected (-0.4%).

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
11/14/22	United Kingdom	Rightmove House Prices MoM	Nov	--	-1.1%	0.9%
11/15/22	Japan	GDP SA QoQ	3Q P	0.3%	-0.3%	1.1%
11/15/22	China	Industrial Production YoY	Oct	5.3%	5.0%	6.3%
11/15/22	China	Retail Sales YoY	Oct	0.7%	-0.5%	2.5%
11/15/22	China	Fixed Assets Ex Rural YTD YoY	Oct	5.9%	5.8%	5.9%
11/15/22	China	Property Investment YTD YoY	Oct	-8.3%	-8.8%	-8.0%
11/15/22	China	Residential Property Sales YTD YoY	Oct	--	-28.2%	-28.6%
11/15/22	China	Surveyed Jobless Rate	Oct	5.5%	5.5%	5.5%
11/15/22	France	ILO Unemployment Rate	3Q	7.3%	7.3%	7.4%
11/15/22	United Kingdom	Employment Change 3M/3M	Sep	-25k	-52k	-109k
11/15/22	Germany	ZEW Survey Expectations	Nov	-51.0	-36.7	-59.2
11/15/22	Germany	ZEW Survey Current Situation	Nov	-69.3	-64.5	-72.2
11/15/22	Eurozone	ZEW Survey Expectations	Nov	--	-38.7	-59.7
11/15/22	Eurozone	Employment QoQ	3Q P	--	0.2%	0.4%
11/15/22	Eurozone	GDP SA QoQ	3Q P	0.2%	0.2%	0.2%
11/15/22	United States	PPI Ex Food and Energy MoM	Oct	0.3%	0.0%	0.2%
11/16/22	Japan	Core Machine Orders MoM	Sep	0.7%	-4.6%	-5.8%
11/16/22	China	New Home Prices MoM	Oct	--	-0.37%	-0.28%
11/16/22	United Kingdom	CPIH YoY	Oct	9.3%	9.6%	8.8%
11/16/22	United Kingdom	CPI Core YoY	Oct	6.4%	6.5%	6.5%
11/16/22	United States	MBA Mortgage Applications	nov-11	--	2.7%	-0.1%
11/16/22	United States	Retail Sales Advance MoM	Oct	1.0%	1.3%	0.0%
11/16/22	United States	NAHB Housing Market Index	Nov	36,0	33,0	38,0
11/17/22	Eurozone	EU27 New Car Registrations	Oct	--	12.2%	9.6%
11/17/22	Eurozone	CPI YoY	Oct F	10.7%	10.6%	9.9%
11/17/22	Eurozone	CPI MoM	Oct F	1.5%	1.5%	1.5%
11/17/22	Eurozone	CPI Core YoY	Oct F	5.0%	5.0%	5.0%
11/17/22	United States	Housing Starts MoM	Oct	-2.0%	-4.2%	-1.3%
11/17/22	United States	Building Permits MoM	Oct	-3.2%	-2.4%	1.4%
11/17/22	United States	Initial Jobless Claims	nov-12	228k	222k	226k
11/18/22	United Kingdom	GfK Consumer Confidence	Nov	-46,0	-44,0	-47,0
11/18/22	United Kingdom	Retail Sales Ex Auto Fuel MoM	Oct	0.6%	0,30%	-1.5%
11/18/22	United States	Leading Index	Oct	-0.4%	-0,80%	-0,50%

SOURCE: BLOOMBERG



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CALENDAR: THE WEEK AHEAD

14

COMING INDICATORS

The week will offer a lot of insights about how economies are doing in November with the publication of the flash PMIs in several countries, consumer confidence (Eurozone, Germany, France), business sentiment in France, the IFO survey in Germany and University of Michigan sentiment in the US. The minutes of the FOMC are also eagerly awaited for hints about the way forward in this tightening cycle. Finally, the OECD will publish its Economic Outlook.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
11/22/2022	Eurozone	OECD Publishes Economic Outlook			
11/22/2022	Eurozone	Consumer Confidence	Nov	--	-27.6
11/23/2022	France	S&P Global France Manufacturing PMI	Nov	--	47.2
11/23/2022	France	S&P Global France Services PMI	Nov	--	51.7
11/23/2022	France	S&P Global France Composite PMI	Nov	--	50.2
11/23/2022	Germany	S&P Global/BME Germany Manufacturing PMI	Nov	46.0	45.1
11/23/2022	Germany	S&P Global Germany Services PMI	Nov	47.0	46.5
11/23/2022	Germany	S&P Global Germany Composite PMI	Nov	46.0	45.1
11/23/2022	Eurozone	S&P Global Eurozone Manufacturing PMI	Nov	--	46.4
11/23/2022	Eurozone	S&P Global Eurozone Services PMI	Nov	--	48.6
11/23/2022	Eurozone	S&P Global Eurozone Composite PMI	Nov	--	47.3
11/23/2022	United Kingdom	S&P Global/CIPS UK Manufacturing PMI	Nov	--	46.2
11/23/2022	United Kingdom	S&P Global/CIPS UK Services PMI	Nov	--	48.8
11/23/2022	United Kingdom	S&P Global/CIPS UK Composite PMI	Nov	--	48.2
11/23/2022	United States	MBA Mortgage Applications	Nov	--	2.7%
11/23/2022	United States	Cap Goods Orders Nondef Ex Air	Oct	-0.2%	-0.4%
11/23/2022	United States	Initial Jobless Claims	Nov	--	222k
11/23/2022	United States	S&P Global US Manufacturing PMI	Nov	50.0	50.4
11/23/2022	United States	S&P Global US Services PMI	Nov	--	47.8
11/23/2022	United States	S&P Global US Composite PMI	Nov	--	48.2
11/23/2022	United States	U. of Mich. Sentiment	Nov	55.3	54.7
11/23/2022	United States	U. of Mich. Current Conditions	Nov	--	57.8
11/23/2022	United States	U. of Mich. Expectations	Nov	--	52.7
11/23/2022	United States	U. of Mich. 1 Yr Inflation	Nov	--	5.1%
11/23/2022	United States	U. of Mich. 5-10 Yr Inflation	Nov	--	3.0%
11/23/2022	United States	New Home Sales MoM	Oct	-5.1%	-10.9%
11/23/2022	United States	FOMC Meeting Minutes	Nov	--	--
11/24/2022	Japan	Jibun Bank Japan PMI Services	Nov	--	53.2
11/24/2022	Japan	Jibun Bank Japan PMI Composite	Nov	--	51.8
11/24/2022	Japan	Jibun Bank Japan PMI Mfg	Nov	--	50.7
11/24/2022	France	Business Confidence	Nov	--	102
11/24/2022	Germany	IFO Business Climate	Nov	85.0	84.3
11/24/2022	Germany	IFO Current Assessment	Nov	--	94.1
11/24/2022	Germany	IFO Expectations	Nov	--	75.6
11/25/2022	Germany	GfK Consumer Confidence	Dec	-39.0	-41.9
11/25/2022	France	Consumer Confidence	Nov	--	82

SOURCE: BLOOMBERG



FURTHER READING

15

Gone with the wind: the erosion of real household wealth	EcoTVWeek	18 November 2022
Romania: a widening current account deficit in 2022	Chart of the Week	16 November 2022
US: Disinflation has started	EcoWeek	14 November 2022
Spain: national recovery plan, contrasted progresses	EcoTVWeek	10 November 2022
Italy: The increase in fixed rates for house purchase loans is favouring floating rates	Chart of the Week	9 November 2022
US : Federal Reserve: how much is enough?	EcoWeek	7 November 2022
France: Inflation spike? Not yet	EcoTVWeek	4 November 2022
Japan: An increasingly large proportion of Japanese subsidiaries based abroad	Chart of the Week	2 November 2022
Eurozone: The disinflation of 2023, between hope and uncertainty	EcoWeek	31 October 2022
Hungarian Forint: under selling pressure	EcoTVWeek	28 October 2022
China: consumer spending still depressed	Chart of the Week	26 October 2022
Global: Synchronous rate hikes: a sum-of-the-parts analysis	EcoWeek	24 October 2022
Hungarian Forint: under selling pressure	EcoTVWeek	21 October 2022
Germany: Revising the PMI to better understand shocks affecting industry	EcoFlash	19 October 2022
US : Foreign investors in US Treasuries: official and private sectors now neck and neck	Chart of the Week	19 October 2022
Global growth at risk	EcoWeek	17 October 2022
Qatar: favorable prospects thanks to the gas rent	EcoTVWeek	14 October 2022
Emerging Countries: Double whammy	EcoEmerging	12 October 2022
Eurozone: the contribution of supply-side issues to food price inflation	Chart of the Week	12 October 2022
Eurozone: Rising interest rates and public debt sustainability	EcoWeek	10 October 2022



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